4-20-10, Bachus: We Can No Longer Hide The GSEsâ€™ Debts In The Shadows

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April 29, 2010

WASHINGTON – Financial Services Committee Ranking Member Spencer Bachus made the following statement today during the Capital Markets Subcommittee entitled “Credit Default Swaps on Government Debt: Potential Implications of the Greek Debt Crisis.” “The ongoing Greek debt crisis, while tragic, is the result of decades of reckless spending, and that’s something we’re quite familiar with here in the U.S.   Without real spending cuts and GSE reform, the bailouts will not stop, the housing market will not find its footing, and the American economy will not recover. But so far the response has been to pledge unlimited bailout aid. In fact, the GSE debt alone has already cost the American taxpayers more than $127 billion and puts them at risk for another $5 trillion in guarantees.

“The events of 2008 demonstrated there is a need for legislation to address shortcomings in the regulation of derivatives but demonizing credit default swaps is not the answer. Used responsibly, derivatives are a critical tool for managing risk, including the risk of sovereign debt defaults. Thousands of U.S. companies use derivatives to hedge against unforeseen events and risks inherent in their business.   “While the current sovereign debt crisis in the U.S. and some European nations is instructive about the growth and impact that sovereign CDS can have on the capital markets, Congress should not unnecessarily impair the important benefits that credit derivatives can provide. All of us agree derivatives markets need more transparency and disclosure. We also recognize the Federal Reserve discount window was not intended as a source of funds for banks to speculate with derivatives for their own account. “Restrictions on credit default swap contracts limit the ability of investors to appropriately calculate risk as CDS spreads are often a more accurate reflection of credit risk than credit ratings. When the credit rating agencies are no longer a reliable measure of creditworthiness, investors should not have effective risk management tools, such as credit default swaps, arbitrarily removed from their risk management arsenal. The growth of the CDS market is a reminder that market solutions are capable of supplying the information investors need to make informed decisions. Arbitrary bans of certain derivative products would only force derivative dealers out of the marketplace and ultimately increase – not mitigate – systemic risk.

“In The Republic, the Greek philosopher Plato stated, ‘We can easily forgive a child who is afraid of the dark; the real tragedy of life is when men are afraid of the light.’ Mr. Chairman, when will the Administration see the light and realize that we can no longer hide the GSEs’ debts in the shadows and continue down our current path of fiscal irresponsibility. Unless we change course, I fear America will soon experience its own Greek tragedy.”

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